

# 1997 Part-Year Resident Personal Income Tax

## Arizona Form 140PY

### For Assistance

If you have questions, please call one of the following help numbers.

Phoenix..... (602) 255-3381  
Other Arizona areas .....(800) 352-4090  
Form Orders ..... (602) 542-4260  
Forms by Fax .....(602) 542-3756  
Recorded Tax Information  
Phoenix .....(602) 542-1991  
Other Arizona areas.. (800) 845-8192  
Hearing impaired TDD user  
Phoenix .....(602) 542-4021  
Other Arizona areas ...(800) 397-0256

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<http://www.revenue.state.az.us>

### Are You Subject to Tax in Arizona?

**A. Residency Status.** You are a resident of Arizona if your domicile is in Arizona. Domicile is the place where you have your permanent home. It is where you intend to return if you are living or working temporarily in another state or country.

For more information on determining residency for Arizona income tax purposes, see Arizona Department of Revenue Procedure ITP 92-1. To get a copy of this procedure, call one of the help numbers listed on this page.

**B. Part-Year Resident.** You are a part-year resident if you did either of the following during 1997.

1. You moved into Arizona with the intent of becoming a resident.
2. You moved out of Arizona with the intent of giving up your Arizona residency.

As a part-year resident, you are subject to tax on all of the following.

1. Any income you earned in 1997 while an Arizona resident this includes any interest or dividends received from sources outside Arizona.
2. Any income you earned from an Arizona source in 1997 before moving to (or after leaving) the state.

**NOTE:** *If you also have Arizona source income and deductions for the portion of the year you were an Arizona nonresident, file Arizona Form 140PY for the entire taxable year. On this return, you must report all of the following.*

1. All income and deductions for the part of the year you were an Arizona resident.
2. Any income and deductions from Arizona sources for the part of the year you were an Arizona nonresident.

**NOTE:** *You must file a state return even if your employer withheld all or part of the tax.*

**C. Military Personnel.** If you were an Arizona resident when you entered the military, you continue to be an Arizona resident regardless of where you are stationed. You continue to be an Arizona resident unless you establish a new domicile.

If you are an Arizona resident, you are subject to Arizona income tax on all of your income. This includes your military pay.

If you are a nonresident stationed in Arizona, you are not subject to Arizona income tax on your military pay. If you earn other income in Arizona, that income is taxable by Arizona. Use Form 140NR, *Nonresident Personal Income Tax Return*, to report this income. If you are an active duty military member who became an Arizona resident or gave up Arizona residency during 1997, file Form

140PY to report income subject to Arizona income tax.

For more information, see Arizona Department of Revenue brochure, Pub 704, *Taxpayers in the Military*. To get a copy of this brochure, call one of the help numbers listed on this page.

**D. Deceased Taxpayer.** When a taxpayer dies during the year, the surviving spouse or personal representative may have to file a final return. Use the form the taxpayer would have used. Enter the word “deceased” after the decedent’s name in the address section of the form. Also enter the date of death after the decedent’s name. The surviving spouse may file a joint return with the deceased taxpayer. If you are filing a joint return, write “filing as surviving spouse” in the area for the deceased spouse’s signature. Include the deceased taxpayer’s income up to the date of death for the part of the year he or she was an Arizona resident. Also include your income for the part of the year you were an Arizona resident. **If the department mailed you a booklet, do not use the label.**

If requesting a refund, complete Form 131, *Claim for Refund on Behalf of Deceased Taxpayer*. Attach this form to the front of your return. It may be necessary to file fiduciary or estate tax returns also. Call the Arizona Department of Revenue at (602) 542-4022 for details on filing a fiduciary or estate tax return.

**E. American Indians.** You must file an Arizona income tax return if you meet the Arizona filing requirements unless **all** of the following apply to you.

1. You are an enrolled member of an Indian tribe.
2. You live on the reservation established for that tribe.
3. You earned all of your income on that reservation.

For more information, see Arizona Department of Revenue Income Tax Ruling ITR 96-4. To get a copy of this ruling, call one of the help numbers listed on page 1 of these instructions.

**F. Spouses of American Indians.** If either 1 or 2 below apply to you, see Arizona Department of Revenue Income Tax Ruling ITR 96-4.

1. You are a non-Indian married to an Indian described in paragraph E above.
2. You are a non-enrolled Indian married to an Indian described in paragraph E above.

To get a copy of this ruling, call one of the help numbers listed on page 1 of these instructions.

**G. Parents Electing to Claim Certain Unearned Income of Their Children on Their Federal Income Tax Return Under IRC 1(i)(7).** When you include your child's unearned income in your federal adjusted gross income, you must include that same income in your Arizona taxable income. The child should not file an Arizona income tax return.

## Do You Need To File a Return?

Your filing status and income determine if you must file an Arizona income tax return. You must file a return to get a refund of any Arizona income tax withheld.

## Filing Status and Income Chart

The following rules are for all Arizona taxpayers.

You must file if you are:	and your gross income is at least:	or your Arizona adjusted gross income is at least
Single	\$15,000	\$ 5,500
Married filing jointly	\$15,000	\$ 11,000
Married filing separately	\$15,000	\$ 5,500
Unmarried head of household	\$15,000	\$ 5,500

You can find your Arizona adjusted gross income on line 22 of Arizona Form 140PY.

Gross income is gross income as defined under the Internal Revenue Code less that income Arizona law excludes from Arizona taxation.

An Arizona resident must report income from **all** sources. This includes out-of-state income.

## When Should You File?

Your 1997 tax return is due no later than midnight, April 15, 1998.

File your return as soon as you can after January 1, but no later than April 15, 1998. To avoid penalties and interest, the U.S. Post Office must postmark your return by April 15, 1998.

You may request an extension if you know you will not be able to file on time. *An extension does not extend the time to pay your income tax. Failure to pay at least 90 percent of the tax due by the original due date will result in a penalty.* The department charges interest on any tax that you do not pay by April 15. The department also charges an extension underpayment penalty if you do not pay 90 percent of your tax by April 15. This penalty is one-half of one percent (.005) of the tax not paid for each 30 day period or fraction of a 30 day period. This penalty cannot exceed 25 percent of the unpaid tax.

**To get a filing extension, you can either:**

1. Apply for a state extension (Form 204). To request a filing extension for only your Arizona return, file

Arizona Form 204 by April 15. See Form 204 for details.

2. Use your federal extension (Federal Form 4868 or 2688). Arizona will accept your federal extension for the same period. Attach a copy of the federal extension to the front of your return. However, if you must make a payment, use Arizona Form 204.

*Attach a copy of your extension to the front of your return when you file.*

## Nonresident Aliens

Nonresident aliens having federal income tax returns due on June 15 must file Arizona tax returns by April 15.

To file an Arizona return at the same time the federal return is due, file for an extension by April 15.

You must pay at least 90 percent of your tax liability by April 15. Those filing for a federal four-month extension must file an Arizona extension for both the four-month and two-month extensions. See Form 204 for extension filing details.

When you do not file your Arizona return or extension by April 15, the department may charge you interest and penalties. Late filing and late payment penalties and interest will apply to the unpaid tax liability.

## Penalties and Interest

**A. Late Filing Penalty.** The late filing penalty is 5 percent of the tax found to be remaining due for each month or fraction of a month the return is late. This penalty cannot exceed 25 percent of the tax found to be remaining due.

**B. Extension Underpayment Penalty.** The department imposes this penalty if you do not pay 90 percent of the tax liability shown on your return filed under an extension by the return's original due date. The department may also impose this penalty if you do not attach the extension to your return when you file. The extension underpayment penalty is one-half of one percent (.005) of the tax not paid for each 30 day period or fraction of a 30 day period.

The department imposes this penalty from the original due date of the return until you pay the tax. The extension underpayment penalty cannot exceed 25 percent of the unpaid tax.

**C. Late Payment Penalty.** The department imposes the late payment penalty if you do not pay the tax by the time prescribed for its payment. The late payment penalty is 10 percent of the tax not paid within the time prescribed for its payment.

**NOTE:** *If you are subject to two or more of the above three penalties, the maximum combined penalty cannot exceed 25 percent.*

**D. Interest.** The department charges interest on any tax not paid by the due date even if you have an extension. The department charges interest from the original due date to the date of payment. The Arizona rate of interest is the same as the federal rate.

Contact one of the help numbers listed on page 1 of these instructions for the current interest rate.

**E. Estimated Payment Penalty.** The department imposes the underpayment of estimated tax penalty on any late payment or underpayment of a required installment of estimated tax. Refer to Arizona Form 221 for further details.

## Do You Need To Make Estimated Payments in 1998?

You must make Arizona estimated income tax payments during 1998 if either of the following apply.

1. You reasonably expect your Arizona gross income will exceed \$75,000 in 1998.
2. Your Arizona gross income in 1997 was greater than \$75,000.

As a part-year resident, your Arizona gross income is that part of your federal adjusted gross income that you must report to Arizona.

In projecting current Arizona gross income, you must use ordinary business care and prudence.

**NOTE:** *Arizona's Community property laws may affect the requirement to make estimated payments. For more information, see Arizona Department of Revenue Income Tax Ruling ITR 92-1. To get a copy of this ruling, call one of the help numbers listed on page 1 of these instructions.*

The department will charge you a penalty if you fail to make any required estimated payments. The department will charge you interest on any late or underpaid estimated tax payment.

An individual who does not have to make Arizona estimated income tax payments may choose to make them.

For more information, see Arizona Forms 140ES and 221.

## How do You Amend a Return?

To make a change in your return for 1997 or prior years, file an Arizona Form 140X, *Individual Amended Return*. **Do not** file a new return for the year you are correcting. Generally, you have four years to amend a return to claim a refund.

If the Internal Revenue Service changes your federal taxable income, you must file an Arizona Form 140X for that year. Attach a complete copy of the IRS agent's report. If there are any changes to your federal taxable income, you must amend your Arizona return within 90 days of the change.

## Line-by-Line Instructions

### Tips for Preparing Your Return:

- Complete your return using black ink.
- You must round dollar amounts to the nearest whole dollar. If 50 cents or more, round up to the next dollar. If less than 50 cents, round down.

- When asked to provide your own schedule, attach a separate sheet with your name and social security number at the top. Attach your own schedules to the back of your return.
- Complete your federal return before you start your Arizona return.
- Include your home telephone number and a daytime telephone number, if different.
- If filing a fiscal year return, fill in the period covered in the space provided at the top of the form.

## Entering Your Name, Address, and Social Security Number

### Lines 1, 2, and 3 -

If your booklet has a pre-addressed label inside, use that label if all the information is correct. **Do not use the label if any information is incorrect.**

If there is no correct pre-addressed label, print or type your name, address, and social security number in the space provided. If you do not have a social security number, but have an IRS individual taxpayer identification number, use that number instead. If filing a joint return, enter both social security numbers in the same order as your first names. If you and your spouse have different last names, separate your last names with "and." Put them in the same order as your first names and social security numbers.

The department issues refunds under both first name initials and the last name listed first on the return. For a deceased taxpayer, see page 1 of these instructions.

Use your current home address. The department will send any refund or correspondence to that address.

**NOTE:** *Make sure your social security number is correct and listed in the same order every year if filing jointly.*

Make sure that every return, statement, or document that you file with the department has your social security number. If you pay someone to prepare your return, your preparer must also include a proper identification number where requested.

A paid preparer may use either of the following.

1. The paid preparer may use his or her social security number.
2. The paid preparer may use the federal employer identification number for the business.

Failing to include the proper numbers may subject you or your preparer to a penalty. Make sure that all of the required identification numbers are clear and correct. Your return may take longer to process if identification numbers are missing, incorrect, or unclear. If you are filing a joint return, enter your social security numbers in the same order every year.

*If your name appears first on the return, make sure your social security number is the first number listed.*

## Determining Your Filing Status

The filing status used on your federal return may be different from that used on your Arizona return. Use this section to determine your correct filing status and check the appropriate box (4 through 7) on the front of Form 140PY.

### Line 4 Box - Married Filing a Joint Return

You may use this filing status if married as of December 31, 1997. It does not matter whether or not you were living with your spouse. You may use this filing status if your spouse died during 1997 and you did not remarry in 1997. See "Deceased Taxpayer" section on page 1 for more information.

If you are a part-year resident married to an Arizona full year resident, you may file a joint return using the 140PY. For more information, see Arizona Department of Revenue Income Tax

Ruling ITR 95-2. To get a copy of this ruling, call one of the help numbers listed on page 1 of these instructions.

### Line 5 Box - Unmarried Head of Household

In most cases you may file as head of household on your Arizona return when you qualify as head of household on your federal return.

You cannot file as head of household on your Arizona return when you do not qualify as head of household on your federal return.

**Important:** *While for the most part Arizona law is like federal law, Arizona law is not always the same as federal law. You cannot file as head of household on your Arizona return if you are married living apart from your spouse.*

The head of household filing status is for **unmarried** individuals who provide a home for certain other persons. You may check the box on line 5 **only if** you were unmarried or legally separated under a court order as of December 31, 1997. You are unmarried if you have never been married or are divorced. For head of household purpose, the department may treat you as unmarried if your spouse was a nonresident alien at any time during 1997. If filing as head of household and your spouse was a nonresident alien at any time during 1997, enter your spouse's name on the line next to Box 6. Also enter either your spouse's social security number or your spouse's IRS individual taxpayer identification number in the space provided on line 2.

To qualify as a head of household, either 1 or 2 below must apply.

1. You paid over half the cost of keeping up a home that was the main home for all of 1997 of your **parent** if you can claim that parent as a dependent on your federal return. Your parent did not have to live with you in your home.
2. You paid over half the cost of keeping up a home in which you lived and in which one of the

following also lived for more than half of the year. (If half or less, see "Exception" later.)

- Your **unmarried** child, adopted child, grandchild, great-grandchild, etc., or stepchild. This child does not have to be your dependent. In this case, enter the child's name in the space provided on the line next to the box on line 5. If you do not enter the name, the department may disallow your head of household status.
- Your **married** child, adopted child, grandchild, great-grandchild, etc., or stepchild. In most cases, you must be able to claim this child as a dependent on your federal return. This child does not have to be your dependent if the child's other parent claims him or her as a dependent under the rules for "Children of Divorced or Separated Parents." You can find these rules in the instructions for line 10. Enter the child's name on the line next to the box on line 5. If you do not enter the name, the department may disallow your head of household status.
- Your **foster** child if you can claim that child as a dependent on your federal return.
- Any other **relative** you can claim as a dependent on your federal return.

**NOTE:** *You cannot file as head of household if you claim the dependent exemption under the rules for a person supported by two or more taxpayers. You can find these rules in the instructions for line 10.*

### Keeping up a Home

To find out about the cost of keeping up a home, see IRS publication 501.

If you used payments you received under the **Aid to Families With Dependent Children (AFDC)** program or **other public assistance** programs to pay part of the cost of keeping up your home, you cannot count them as money you paid. You must include them in the total cost of keeping up your home to figure if you paid over half of the cost.

**Exception**

You can count temporary absences such as for school, vacation, or medical care as time lived in your home. If the person for whom you kept up a home was born or died in 1997, you may still file as head of household as long as the home was that person's main home for the part of the year he or she was alive.

Check the line 5 box and enter your dependent's name in the space provided.

**Line 6 Box - Married Filing Separately**

Use this filing status if married on December 31, 1997, and filing a separate Arizona return.

Check the line 6 box and enter your spouse's name in the space provided. Also enter your spouse's social security number in the space provided on line 2.

Arizona is a community property state. Separate Arizona income tax returns must reflect one-half of the community income taxable to Arizona plus any separate income taxable to Arizona.

You must account for community deductions and credits on the same basis as community income. Both filers must either itemize or not itemize. One may not claim a standard deduction while the other itemizes deductions. If you and your spouse support a dependent child from community income, either you or your spouse may claim the dependent. Both of you cannot claim the same dependent on both returns.

If you file a separate part-year Arizona income tax return, your return must reflect all of the following.

1. One-half of the total community income from all sources that you recognized or realized during the part of the year you were an Arizona resident.
2. Any separate income that you recognized or realized during the part of the year you were an Arizona resident.

3. One-half of the total community income from Arizona sources during the part of the year you were an Arizona nonresident.

4. Any separate income derived from Arizona sources during the part of the year you were an Arizona nonresident.

If your spouse is a nonresident of Arizona and a resident of another community property state, total community income reportable to Arizona includes one-half of the community income derived from the other state that your spouse recognized or realized during the part of the year you were an Arizona resident.

**Line 7 Box - Single**

Use this filing status if unmarried or legally separated on December 31, 1997, and you cannot use head of household. Legally separated means under a decree of divorce or of separate maintenance.

**Exemptions**

Write the number of exemptions you are claiming in boxes 8, 9, and 10. Do not put a checkmark. You may lose the exemption if you put a checkmark in these boxes. You may lose the dependent exemption if you omit names, relationships, and social security numbers on page 2, Part A.

**Line 8 Box - Age 65 or Over**

Write "1" in box 8 if you or your spouse were 65 or older in 1997. Write "2" in box 8 if both you and your spouse were 65 or older in 1997.

**Line 9 Box - Blind**

Write "1" in box 9 if you or your spouse are totally or legally blind. Write "2" in box 9 if both you and your spouse are totally or legally blind. To qualify as legally blind, you must attach a physician's letter stating one of the following.

1. Your vision is 20/200 or poorer with corrective lenses.

2. Your field of vision is 20 degrees or less.

**Line 10 Box - Dependents**

You must complete Part A on page 2 of your return before you can total your dependent exemptions.

**NOTE:** *The Arizona meaning of the term "dependent" is, for the most part, the same as the federal meaning. A person that is a dependent on your federal return is also a dependent on your Arizona return.*

**Important:** *Arizona law is not always the same as federal law. In some cases, a person may be a dependent on your Arizona return, but not on your federal return.*

1. A person's gross income will not affect whether or not you can claim that person as a dependent. A person who has income in excess of the federal personal exemption may still be a dependent.
2. A person's filing status will not affect whether or not you can claim that person as a dependent. A person who files a joint return with his or her spouse may still be a dependent.

If you meet the support requirement, you may claim any of the following as a dependent:

- Your child, stepchild, adopted child;
- A child who lived in your home as a family member if placed with you by an authorized placement agency for legal adoption;
- A foster child (any child who lived in your home as a family member for the whole year);
- Your grandchild, great-grandchild, etc.;
- Your son-in-law, daughter-in-law;
- Your parent, stepparent, parent-in-law;

- Your grandparent, great-grandparent, etc.;
- Your brother, sister, half brother, half sister, stepbrother, stepsister, brother-in-law, sister-in-law;
- If related by blood, your aunt, uncle, nephew, niece;
- A person who lived in your home as a family member for the entire year if your relationship with that person was not in violation of the law.

**NOTE:** *You can take an exemption for each of your dependents who was alive during some part of 1997. This includes a baby born in 1997 or a person who died in 1997. Also, the department does not treat any relationships established by marriage as ended by divorce or death. For example, a widower may continue to claim his deceased wife's father (his father-in-law) as a dependent if he meets all of the other requirements.*

#### **You cannot take the following as dependents:**

- Yourself or your spouse;
- A citizen of any country other than Canada and Mexico who does not live in the U.S., unless that citizen is your adopted child who lived with you all year in a foreign country.

#### **Support Requirement**

To claim a person as a dependent, you must have provided over half that person's total support in 1997. If you file a joint return, support can come from either you or your spouse. If you remarried, the department treats the support provided by your new spouse as support coming from you. In some cases, the department may treat taxpayers that provided less than half of a person's support as having provided more than half. See "Children of Divorced or Separated Parents." Also see "Person Supported by Two or More Taxpayers."

Support includes food, a place to live, clothing, medical and dental care, and

education. Support also includes items such as a car and furniture, but only if they are for the person's own use or benefit. Figure the cost of a place to live at its fair rental value. Use the actual cost for any other item.

When figuring support, include money the person used for his or her own support, even if this money was not taxable. Examples of such items you must include are gifts, savings, social security and welfare benefits. You must also include any other public assistance payments. The department does not treat this support as coming from you.

**Do not** include any of the following in total support.

- Income tax, social security and Medicare tax
- Life insurance premiums
- Scholarship grants
- Funeral expenses

For special rules that apply to a foster child, see IRS publication 501.

#### **Children of Divorced or Separated Parents**

Divorced or separated parents must use special rules to decide if they meet the support requirement for their children. Parents who lived apart from each other during the last 6 months of the year must also use these rules, even if they do not have a separation agreement.

For these rules, a custodial parent is the parent who had custody of the child for most of the year. A noncustodial parent is the parent who had custody for the shorter period of time or who did not have custody at all. See IRS publication 501 for the definition of custody.

For the most part, the department treats the custodial parent as providing over half of the child's total support. This means that, for the most part, the custodial parent can claim the child as a dependent.

In some cases the department treats the noncustodial parent as providing over half of the child's support. In these cases, the noncustodial parent can claim the child as a dependent. The noncustodial parent can claim the dependent when both parents together paid over half of the child's support and one of the following applies.

1. The custodial parent agrees not to claim the child as a dependent for federal purposes for 1997 by signing federal Form 8332 or a similar statement.
2. Your divorce decree or written separation agreement went into effect after 1984, and it states that you (the noncustodial parent) can claim the child as a dependent without regard to any condition.
3. Your divorce decree or written separation agreement went into effect before 1985, and it states that you (the noncustodial parent) can claim the child as a dependent. In this case, you must have given at least \$600 for the child's support in 1997.

#### **Person Supported by Two or More Taxpayers**

You must use special rules to decide if you meet the support requirement if two or more taxpayers support a person. Even if you did not pay over half of a person's support, you may still claim that person as a dependent if all of the following applies.

1. You and one or more other taxpayer(s) together paid over half of the person's support.
2. You paid over 10 percent of that person's support.
3. No one alone paid over half of that person's support.
4. You can claim this person as a dependent on your federal return because each eligible taxpayer who paid over 10 percent of the person's support completed federal Form 2120.

An eligible taxpayer is someone who could have claimed the person as a

dependent except that he or she did not pay over half that person's support.

### Special Arizona Rules for Dependents Age 65 or Over

You may also be able to claim a person who is age 65 or over as a dependent. This person may qualify as your dependent even if not related. A person who is age 65 or over will qualify as a dependent on your Arizona return if any of the following apply.

1. In 1997, you paid more than one-fourth of the cost of keeping this person in an Arizona nursing or licensed supervisory care home. Your cost must be more than \$800.
2. In 1997, you paid more than \$800 for either Arizona home health care or other medical costs for the person.

### Completing Line(s) A1

Enter the following on line(s) A1.

1. The dependent's name.
2. The dependent's relationship to you.
3. The dependent's social security number.
4. The number of months the dependent lived in your home during 1997.

You may lose the exemption if you do not furnish this information.

### Line A2 - Total Dependents

Enter the total number of persons listed on line(s) A1. Enter the same number onto the front of the return in box 10.

### Line A3 - Persons You Cannot Take as Dependents on Your Federal Return

Enter the names of the dependents listed on line(s) A1 that you cannot take as a dependent on your federal return if any of the following apply.

1. Your dependent's gross income for 1997 was more than the 1997 federal personal exemption amount.
2. Your dependent filed a joint federal return with his or her spouse.

3. You are claiming the person as a dependent under the special Arizona rules for dependents age 65 or over.

### Reporting Your Residency Status

Check the appropriate box.

#### Line 11 Box - Part-Year Resident Other Than Active Duty Military

Check box 11 if you were an Arizona resident for part of 1997, and were not an active duty military member.

#### Line 12 Box - Part-Year Resident Active Military

Check box 12 if you were an active duty military member who either began or gave up Arizona residency during 1997.

### Determining Arizona Income

Now complete Parts B, C, and D on page 2 of the return.

Use Part B to determine what portion of your total income is taxable by Arizona.

**NOTE:** *If you are unable to determine the proper line to use, please contact one of the help numbers listed on page 1 of these instructions.*

### FEDERAL Column

Enter the actual amounts shown on your 1997 federal income tax return in the FEDERAL column. Complete lines B5 through B18. Line B18 should equal the federal adjusted gross income shown on your 1997 federal return Form 1040, Form 1040A, or Form 1040EZ.

### ARIZONA Column

Enter that portion of your federal income received while you were an Arizona resident in the Arizona column. For example, if you became an Arizona resident on June 30, enter all income you received from that day to December 31, 1997.

**NOTE:** *If you also have Arizona source income for the portion of the taxable year you were an Arizona nonresident, also include that source income on the appropriate line in the Arizona column.*

The Tax Reform Act of 1986 limits the amount of losses that you may deduct from passive activities. A passive activity is one that involves the conduct of any trade or business in which the taxpayer does not materially participate.

As a part-year resident, your Arizona gross income may include some of these losses. For the part of the year you were an Arizona resident, you may consider any passive losses that arose while an Arizona resident. For the part of the year you were an Arizona nonresident, you may consider only those passive losses that arose from Arizona sources. Your 1997 Arizona gross income can include only losses you used on your 1997 federal return.

The following line-by-line instructions apply to the ARIZONA column.

### Line B4 - Dates of Arizona Residency

If you became an Arizona resident during 1997, enter the date that you became an Arizona resident. If you gave up your Arizona residency during 1997, do both of the following.

1. Enter the date you became an Arizona resident.
2. Enter the date you gave up your Arizona residency.

### Line B5 - Wages, Salaries, Tips, etc.

Enter all amounts received while an Arizona resident.

Also enter all amounts received from Arizona employers during the part of the year you were an Arizona nonresident.

**NOTE:** *Do not include active duty military pay for the part of the year you were a nonresident.*

**Line B6 - Interest**

Enter all amounts received while an Arizona resident.

You must also enter any interest income derived from Arizona sources during the part of the year you were an Arizona nonresident. Interest income from Arizona sources is interest income that has acquired an Arizona business situs.

If you received tax exempt interest from municipal bonds, attach a schedule listing the payors and the amount received from each payor. You may also want to attach supporting documents for amounts received from Arizona municipal bonds that are exempt from Arizona income tax. These may be items such as bank statements, brokerage statements, etc. Be sure you add the amount you received while an Arizona resident from non-Arizona municipal bonds to your income on line C22.

**Line B7 - Dividends**

Enter all amounts received while an Arizona resident.

You must also enter any dividends derived from Arizona sources during the part of the year you were an Arizona nonresident. Dividend income from Arizona sources is dividend income that has acquired an Arizona business situs.

**Line B8 - Arizona Income Tax Refunds**

Enter the amount of Arizona income tax refunds received in 1997 that you included in your federal adjusted gross income.

**Line B9 - Alimony Received**

Enter amounts received while an Arizona resident.

**Line B10 - Business Income or (Loss)**

Enter any business or farm income or (loss) incurred while you were an Arizona resident.

Also enter income or (loss) derived from Arizona businesses during the part of the year you were an Arizona nonresident.

**Line B11 - Gains or (Losses)**

Enter any gain or (loss) on property sold while an Arizona resident if you included the amount as income on your 1997 federal return.

Also enter gains or (losses) on sales of Arizona property during the part of the year you were an Arizona nonresident.

**Line B12 - Rents, etc.**

Enter income received from rents, royalties, partnerships, estates, trusts, small business corporations, etc., while an Arizona resident.

Also enter rent or royalty earned on Arizona properties during the part of the year you were an Arizona nonresident. Enter any income or (loss) derived from Arizona sources from partnerships, estates, trusts, small business, corporations, etc., during the part of the year you were an Arizona nonresident.

**Line B13 - Other Income Reported on Your Federal Return**

Enter other income, shown on your federal return that you received while an Arizona resident. Other income may include pensions, social security, unemployment, and lottery winnings. Attach a schedule listing these other items.

Also enter any other income derived from Arizona sources during the part of the year you were an Arizona nonresident.

**Line B14 - Total Income**

Add lines B5 through B13 and enter the total.

**Line B15 - Total IRA Deduction**

Enter amount actually paid while an Arizona resident for your IRA and/or your spouse's IRA.

**Line B16 - Other Federal Adjustments**

If your federal return shows adjustments to income, attach your own schedule to show your calculation. If you show adjustments for any of the following items, make an entry on this line as explained below.

1. Keogh Retirement Plan and self-employed SEP deduction: enter amount actually paid while an Arizona resident.
2. Penalty on early withdrawal of savings: multiply the federal deduction by the ratio of your Arizona interest to your federal interest.
3. Alimony actually paid while an Arizona resident.
4. Moving expenses: enter the amount of moving expenses included in your federal adjusted gross income that you accrued and paid during the part of the year you were an Arizona resident.

**Line B17 - Total Adjustments**

Add lines B15 and B16 and enter the total.

**Line B19 - Arizona Income**

Complete line B19 as instructed on the form.

**Line B20 - Arizona Percentage**

Divide line B19 by line B18, and enter the result on line B20. (**Do not enter more than 100 percent.**) This is the Arizona percentage of your total income.

**Example:**

Arizona Gross Income  
from line B19 = \$ 7,500

Federal Adjusted  
Gross Income  
from line B18 = \$ 30,000

Arizona  
percentage = \$ 7,500/30,000  
= 25%



## Determining Additions to Income

### Line C21- Early Withdrawal of Arizona, County, City, or School Retirement System Contributions

If you meet all the following, you must enter an amount here.

1. You left your job with the State of Arizona or an Arizona county, city, or school district for reasons other than retirement.
2. When you left, you took out the contributions you had made to the retirement system while employed.
3. You deducted these contributions on your Arizona income tax returns that you filed for prior years.
4. You did not include these contributions in your federal adjusted gross income this year.

If you meet all these tests, you must report as income those contributions previously deducted on your prior years' Arizona tax returns.

For more information, see Arizona Department of Revenue Income Tax Ruling ITR 93-7. To get a copy of this ruling, call one of the help numbers listed on page 1 of these instructions.

**NOTE:** Any interest earned on your retirement contributions while they were in the system should be reported on line B6 in both the FEDERAL and ARIZONA income columns.

### Line C22 - Other Additions to Income

Use line C22 if any of the special circumstances below applies. Attach your own schedule to the back of your return, explaining any amounts entered on line C22.

Items A, B, and C that follow must be added to income on line C22 of your return.

#### A. Non-Arizona Municipal Interest

Enter interest income earned from non-Arizona municipal bonds while an Arizona resident.

**NOTE:** Beginning with the 1997 tax year, you may now reduce this addition by any interest or other related expenses incurred to purchase or carry the obligation. As a part-year resident, you may reduce the addition by the amount of those expenses attributable to income subject to Arizona tax. You may reduce the addition by those expenses that you could not deduct on your federal return.

### B. Ordinary Income Portion of Lump Sum Distribution Excluded on Your Federal Return

Arizona law does not provide for 5 or 10 year averaging. Enter the amount of the distributions received while an Arizona resident and treated as ordinary income on your federal return. If you chose to treat the capital gain portion of the distributions as ordinary income, you must also include that amount on line C22.

For more information, see Arizona Department of Revenue Income Tax Ruling, ITR 93-5. To get a copy of this ruling, call one of the help numbers listed on page 1 of these instructions.

### C. Trust or Estate Deductions

You must add the following estate or trust deductions to your Arizona gross income.

1. Your share of the estate's or trust's deductions allowed under the Internal Revenue Code.
2. Your share of the excess deductions and loss carryovers allowed under the Internal Revenue Code as deductions to the beneficiary on termination of an estate or trust.

You must add the above deductions and loss carryovers to Arizona gross income only to the extent you included these items in computing your Arizona taxable income.

### D. Pension Adjustments

Depending on your situation, you may either add (line C22) or subtract (line D34) this amount.

### Pension Adjustment Worksheet — Line C22

#### Worksheet (Keep for your records.)

Follow these steps to figure the adjustment:

1. Your contribution to annuity. \_\_\_\_\_
2. Pension amount received in prior years. \_\_\_\_\_
3. Remainder of cost (line 1 minus line 2 but not less than zero). \_\_\_\_\_
4. Pension amount received this year. \_\_\_\_\_
5. Amount from line 3. \_\_\_\_\_
6. Subtract line 5 from line 4 (but not less than zero). \_\_\_\_\_
7. Enter the pension amount taxable on your federal return. \_\_\_\_\_
8. Subtract line 7 from line 6. \_\_\_\_\_

If line 8 is more than zero, enter the amount on line 8 as an addition to income. Enter the addition on line C22.

If line 7 is more than line 6, enter the difference as a subtraction from income. Enter the subtraction on line D34.

Use this adjustment if both of the following apply.

1. Arizona taxed your pension for years before 1979.
2. You reported that pension on your federal return using the percentage exclusion method.

Do not use this adjustment if either of the following apply.

1. You reported your pension income as fully taxable on your federal return.
2. You reported your pension income on your federal return under the "three-year-rule".

Follow the worksheet below to figure the adjustment.

### E. Partnership Income

Depending on your situation, you may either add (line C22) or subtract (line D34) this amount.

Use this adjustment if your Arizona Form 165 Schedule K-1 shows a difference between federal and state distributable income.

If the difference reported on your Arizona Form 165, Schedule K-1, is a positive number, enter that portion of the difference that is allocable to partnership income taxable by Arizona as an addition. Enter the addition on line C22.

If the difference reported on your Arizona Form 165, Schedule K-1, is a negative number, enter that portion of the difference that is allocable to partnership income taxable by Arizona as a subtraction. Enter the subtraction on line D34.

### F. Net Operating Losses

Arizona does not have specific Arizona net operating loss provisions for individual taxpayers. Arizona conforms to the federal net operating loss provisions, including the carryback provisions.

As a part-year resident, Arizona recognizes that portion of the federal net operating loss which is attributable

to income taxed by Arizona as the Arizona net operating loss.

As a part-year Arizona resident, include in Arizona gross income the amount of federal net operating loss carryforward or carryback attributable to Arizona unless any of the following apply.

1. The net operating loss attributable to Arizona included in your federal adjusted gross income has already been deducted for Arizona purposes.
2. The net operating loss included in your federal adjusted gross income was incurred from non-Arizona sources while a nonresident.
3. You are taking a separate subtraction for the net operating loss included in your federal adjusted gross income on an amended return filed for a prior tax year under the special net operating loss transition rule.

For information on deducting a net operating loss carryback, see Arizona Department of Revenue Income Tax Procedure ITP 97-2. To get a copy of this procedure, call one of the help numbers listed on page 1 of these instructions.

### G. Agricultural Water Conservation Expenses

If you take this credit, you cannot deduct any expenses for which you claim the credit. If you take this credit, enter the amount of such expenses that you deducted on your federal return.

### H. Items Previously Deducted for Arizona Purposes

Arizona statutes prohibit a taxpayer from deducting items more than once. However, under the operation of former Arizona law (1989 and prior), you could deduct certain items in greater amounts for Arizona purposes than federal purposes. Investment interest and passive activity losses were such items. In some cases, you could have deducted such amounts in their entirety on the Arizona return. For federal purposes, the deduction for these items was limited, with the unused portions being carried forward and deducted in future years. Your Arizona return may

include these previously deducted items because of the difference between the federal and former Arizona treatment. If your Arizona taxable income includes items previously deducted for Arizona purposes, you must add such amounts to your Arizona gross income.

### I. Claim of Right Adjustment for Amounts Repaid in 1997

You must make an entry here if all of the following apply.

1. During 1997, you were required to repay amounts held under a claim of right.
2. The amount required to be repaid was subject to Arizona income tax in the year included in income.
3. The amount required to be repaid during 1997 was more than \$3,000.
4. You took a deduction for the amount repaid on your 1997 federal income tax return.
5. The deduction taken on your federal income tax return is reflected in your Arizona taxable income.

If the above apply, enter the amount deducted on your federal income tax return which is reflected in your Arizona taxable income.

For more information on the Arizona claim of right provisions, see Arizona Department of Revenue Individual Income Tax Procedure ITP 95-1. To get a copy of this procedure, call one of the help numbers listed on page 1 of these instructions.

### J. Claim of Right Adjustment for Amounts Repaid in Prior Taxable Years

You must make an entry here if all of the following apply.

1. During a year prior to 1997 you were required to repay income held under a claim of right.
2. You computed your tax for that prior year under Arizona's claim of right provisions.

3. A net operating loss or capital loss was established due to the repayment made in the prior year.
4. You are entitled to take that net operating loss or capital loss carryover into account when computing your 1997 Arizona taxable income.

5. The amount of the loss carryover included in your Arizona gross income is more than the amount allowed to be taken into account for Arizona purposes.

Enter the amount by which the loss carryover included in your Arizona gross income is more than the amount allowed for the taxable year under Arizona law.

#### **K. Addition to S Corporation Income Due to Credits Claimed**

Shareholders of an S corporation who claim a credit passed through from an S corporation must make an addition to income for the amount of expenses disallowed by reason of claiming the credit.

An S corporation that passes the following credits through to its shareholders must notify each shareholder of his or her pro rata share of the adjustment. You must enter an amount on this line when claiming any of the following credits.

- Agricultural water conservation credit
- Defense contracting credit
- Environmental technology facility credit
- Pollution control credit
- Recycling credit

#### **L. Other Adjustments**

Other special adjustments may be necessary for depreciation or amortization of pollution control devices, child care facilities or other items. Call one of the help numbers listed on page 1 of these instructions for more information on these adjustments.

#### **Line C23 - Total Additions**

Add lines C21 and C22. Enter the total on line C23 and on the front of your return on line 15.

#### **Determining Subtractions From Income**

You may only subtract those items for which statutory authority exists. Without such authority you cannot take a subtraction. If you have any questions concerning subtractions from income, call one of the help numbers listed on page 1 of these instructions.

**NOTE:** *You may not subtract any amount which is allocable to income excluded from your Arizona taxable income.*

#### **Line D24 - Exemption: Age 65 or Over**

Multiply the number in box 8 on the front of your return by \$2,100 and enter the result.

#### **Line D25 - Exemption: Blind**

Multiply the number in box 9 on the front of your return by \$1,500 and enter the result.

#### **Line D26 - Exemption: Dependents**

Multiply the number in box 10 on the front of your return by \$2,300 and enter the result.

#### **Line D27 - Total**

Add lines D24 through D26 and enter the total.

#### **Line D28 - Prorated Exemptions**

Multiply the amount on line D27 by the Arizona percentage from line B20 and enter the result.

#### **Active Duty Military Personnel**

**Only:** *If you were an active duty military member who either began or gave up Arizona residency during 1997, do not prorate these exemptions. You are allowed 100 percent deductions for the age 65, the blind, and the dependents exemptions. Enter the amount on line D27 (Total) on this line.*

#### **Line D29 - Interest on U.S. Obligations**

Enter the amount of interest income from U.S. Government obligations included on line B6 in the ARIZONA column. U.S. Government obligations include obligations such as U.S. savings bonds and treasury bills. You cannot deduct any interest or other related expenses incurred to purchase or carry the obligations. If such expenses are included in your Arizona gross income, you must reduce the subtraction by such expenses. If you are itemizing deductions on your Arizona return, you must exclude such expenses from the amount deducted.

**NOTE:** *Do not subtract interest earned on FNMA or GNMA bonds since this interest is taxable by Arizona. For more information, see the department's Guidelines for Exempt Securities. To get a copy of this guideline, call one of the help numbers listed on page 1 of these instructions.*

*Do not subtract any amount received from a qualified pension plan that invests in U.S. Government obligations. Do not subtract any amount received from an IRA that invests in U.S. Government obligations. These amounts are not interest income. For more information, see Arizona Department of Revenue Income Tax Rulings ITR 96-2 and ITR 96-3. To get a copy of these tax rulings, call one of the help numbers listed on page 1 of these instructions.*

**Line D30 - Arizona Lottery Winnings**

You may subtract all winnings received in 1997 related to an Arizona lottery prize won before March 22, 1983. You may subtract up to \$5,000 of winnings received in 1997 for Arizona lottery prizes won after March 21, 1983. Only subtract those Arizona lottery winnings that you included on line B13 in the ARIZONA column and reported on your federal income tax return.

If you subtract Arizona lottery winnings here, you may have to adjust the amount of gambling losses claimed as an itemized deduction.

**Line D31 - Social Security Benefits or Railroad Retirement Benefits**

Arizona does not tax social security benefits received under Title II of the Social Security Act. Arizona does not tax railroad retirement benefits received from the Railroad Retirement Board under the Railroad Retirement Act. If you included such social security or railroad retirement benefits on your federal return as income and also included this amount in the Arizona column on line B13, subtract this income on line D31.

Subtract only the amount you reported as income on your federal return and included on line B13 in the Arizona column.

See Arizona Department of Revenue Income Tax Ruling ITR 96-1 for more information about railroad retirement benefits. To get a copy of this ruling, call one of the help numbers listed on page 1 of these instructions.

**Line D32 - Agricultural Crops Given to Arizona Charitable Organizations**

Arizona law allows a subtraction for qualified crop gifts made during 1997 to one or more charitable organizations. To take this subtraction, you must be engaged in the business of farming or processing agricultural crops. The crop must be grown in Arizona. You must make your gift to a charitable organization located in Arizona which is exempt from Arizona tax.

The subtraction is the greater of 80 percent of the wholesale market price or 80 percent of the most recent sale price for the given crop.

To determine if your crop contribution qualifies for this subtraction, see Arizona Department of Revenue Procedure ITP 93-2. To get a copy of this procedure, call one of the help numbers listed on page 1 of these instructions.

**Line D33 - Alternative Fuel Vehicles and Refueling Equipment**

Arizona law allows a subtraction for alternative fuel vehicles.

You may qualify to take this subtraction if you did any of the following.

1. Purchased a new alternative fuel vehicle for use in Arizona.
2. Converted a conventional fuel vehicle to an alternative fuel vehicle for use in Arizona.
3. Installed alternative fuel vehicle refueling equipment on your property in Arizona.

You may take a subtraction for purchasing a new alternative fuel vehicle. You may take a subtraction for converting a conventional fuel vehicle to an alternative fuel vehicle. You may take a subtraction for installing an alternative fuel delivery system. You may also subtract some personal interest if your purchase or conversion was for your private non-commercial use. The total subtraction is the sum of the amounts allowed to be subtracted for each item.

To figure your subtraction complete Form 313. Enter the amount from Form 313, Part I, line 28 here.

**Line D34 - Other Subtractions**

Use line D34 if any of the following special circumstances apply. Attach your own schedule to the back of your return, explaining any amounts entered here.

**A. Exclusion for U.S. Government, Arizona State, or Local Government Pensions**

If you receive pension income from any of the sources listed below, subtract the amount you received or \$2,500, whichever is less. Include only the amount you reported as income on your federal return and included on line B13 in the ARIZONA column. If both you and your spouse receive such pension income, each spouse may subtract the amount received or \$2,500, whichever is less.

**Public pensions from the following sources qualify for this subtraction:**

- The United States Government Service Retirement and Disability Fund
- The United States Foreign Service Retirement and Disability System
- Retired or retainer pay of the uniformed services of the United States
- Any other retirement system or plan established by federal law

**NOTE:** *This applies only to those retirement plans authorized and enacted into the U.S. Code. This does not apply to a retirement plan that is only regulated by federal law (i.e., plans which must meet certain federal criteria to be qualified plans).*

- The Arizona State Retirement System
- The Arizona State Retirement Plan
- The Corrections Officer Retirement Plan
- The Public Safety Personnel Retirement System
- The Elected Officials' Retirement Plan
- A retirement plan established for employees of a county, city, or town in Arizona
- The optional retirement program established by the Arizona Board of

Regents under Arizona Revised Statutes

**NOTE:** *Public retirement pensions from states other than Arizona do not qualify for this subtraction.*

### B. Distribution From Certain Retirement Accounts

If you were an Arizona resident before December 31, 1975, and one of the following applies, you may have a subtraction here.

1. You are receiving distributions from your IRA account to which you were contributing before December 31, 1975.
2. You are receiving distributions from your self employment qualified retirement plan to which you were contributing before December 31, 1975.

### C. Previously Reported Gain on Decedent's Installment Sale

Prior Arizona law required acceleration of any unrecognized installment sale gain upon the death of a taxpayer. However, this acceleration could have been avoided by the posting of a bond. If acceleration was required, your federal adjusted gross income may include installment sale amounts already recognized on a decedent's final Arizona return. Deduct that portion of the gain included on line B11, Arizona column.

### D. Certain Wages of American Indians

Enrolled members of American Indian tribes may subtract wages earned while living and working on their tribe's reservation. You can subtract only those amounts that you included on line B5, ARIZONA column. The federal government must recognize these tribes.

For more information, see Arizona Department of Revenue Income Tax Ruling, ITR 96-4. To get a copy of this ruling call one of the help numbers listed on page 1 of these instructions.

### E. Combat Pay

Members of the U.S. armed forces may subtract pay received for serving in a combat zone or an area given the treatment of a combat zone. Enter only that amount of pay reported on your 1997 federal return that you also included on line B5 in the ARIZONA column.

### F. Federally Taxable Arizona Municipal Interest

Enter the amount of any interest income received on obligations of the State of Arizona, or any political subdivisions of Arizona, that you included in your Arizona gross income. Enter only that amount of Arizona municipal interest income that you included on line B6 in the ARIZONA column. Do not enter any Arizona municipal interest that is exempt from federal taxation and not

included in your federal adjusted gross income.

### G. Adoption Expenses

You may take this subtraction only in the year the final adoption order is granted.

Enter the lesser of the total of the following adoption expenses or \$3,000.

When figuring your subtraction, you may include expenses incurred in prior years.

The following expenses are qualified adoption expenses.

1. Nonreimbursed medical and hospital costs.
2. Adoption counseling.
3. Legal and agency fees.
4. Other nonrecurring costs of adoption.

If filing separately, you may take the entire subtraction, or you may divide the subtraction with your spouse. However, the total subtraction taken by both you and your spouse cannot exceed \$3,000.

### H. Qualified Wood Stove, Wood Fireplace, or Gas Fired Fireplace

Arizona law provides a subtraction for the purchase of a qualified wood stove, qualified wood fireplace, or gas fired fireplace and non-optional equipment directly related to its operation. You may subtract up to \$500 for the purchase and installation of a qualified wood stove, qualified wood fireplace, or gas fired fireplace on your property located in Arizona. When you figure your subtraction, you may also include the purchase price and installation cost of any non-optional equipment directly related to its operation. When figuring your subtraction, do not include taxes, interest, or other finance charges in the purchase price and installation costs.

Arizona law also provides a subtraction for converting an existing fireplace to a qualified wood stove, qualified wood fireplace, or gas fired fireplace and non-optional equipment directly related to its operation. You may subtract up to

### Retirement Account Worksheet Line D34

Calculate the subtraction using the following worksheet.

#### Worksheet (Keep for your records)

1. Enter the contributions made during your Arizona residency and deducted on your federal return before December 31, 1975. \_\_\_\_\_
2. Enter any adjustments deducted on your Arizona returns for 1979 through 1996. If line 2 is more than line 1, stop here. You do not have an adjustment. \_\_\_\_\_
3. If line 2 is less than line 1, subtract line 2 from line 1 and enter the result. \_\_\_\_\_
4. Enter the distribution taxable \_\_\_\_\_  
Compare the amounts on lines 3 and 4 and enter the smaller amount as your allowable subtraction on line D34.

\$500 of the costs incurred for converting an existing fireplace to a qualified wood stove, qualified wood fireplace, or gas fired fireplace on your property located in Arizona. When you figure your subtraction, do not include taxes, interest, or other finance charges.

A qualified wood stove or a qualified wood fireplace is a residential wood heater that was manufactured on or after July 1, 1990, or sold at retail on or after July 1, 1992. The residential wood heater must also meet the U.S. Environmental Protection Agency's July 1990 particulate emissions standards.

A qualified gas fired fireplace is any device that burns natural or liquefied petroleum gas as its fuel through a burner system that is permanently installed in the fireplace. The conversion of an existing wood burning fireplace to noncombustible gas logs that are permanently installed in the fireplace also qualifies as a gas fired fireplace.

#### **I. Claim of Right Adjustment for Amounts Repaid in Prior Taxable Years.**

You must make an entry here if all of the following apply.

1. During a year prior to 1997 you were required to repay income held under a claim of right.
2. The amount required to be repaid was subject to Arizona income tax in the year included in income.
3. You computed your tax for that prior year under Arizona's claim of right provisions.
4. A net operating loss or capital loss was established due to the repayment made in the prior year.
5. You are entitled to take that net operating loss or capital loss carryover into account when computing your 1997 Arizona taxable income.
6. The amount of the loss carryover allowed to be taken into account for Arizona purposes is more than the

amount included in your Arizona gross income.

Enter the amount by which the loss carryover allowed for the taxable year under Arizona law is more than the amount included in your Arizona gross income.

#### **J. Certain Expenses Not Allowed for Federal Purposes**

Beginning with the 1997 tax year, you may subtract some expenses that you cannot deduct on your federal return when you claim certain federal tax credits. These federal tax credits are:

- the federal work opportunity credit
- the empowerment zone employment credit
- the credit for employer-paid social security taxes on employee cash tips
- the Indian employment credit

If you received any of the above federal tax credits for 1997, enter the portion of wages or salaries attributable to income subject to Arizona tax that you paid or incurred during the taxable year that is equal to the amount of those federal tax credits you received.

#### **K. Qualified State Tuition Program Distributions**

If you are a beneficiary of a qualified state tuition program, you may subtract some of the amount distributed from the program for qualified education expenses. Enter the amount of the distribution included in your federal adjusted gross income that you included as income in the Arizona column. A qualified state tuition program is a program that meets the requirements of I.R.C. § 529.

#### **Line D35 - Total Subtractions**

Add lines D28 through D34. Enter the total here and onto the front of your return, line 20.

### **Different Last Names**

If you filed an Arizona tax return within the past four years with a different last name, enter your prior last name(s) in part E.

### **Totaling Your Income**

#### **Line 13 - Federal Adjusted Gross Income**

You must complete your federal return before completing your Arizona return. You must complete a 1997 federal return to determine your federal adjusted gross income even if not filing a federal return.

Arizona uses federal adjusted gross income as a starting point to determine Arizona taxable income. Enter your federal adjusted gross income from page 2, line B18.

#### **Line 14 - Arizona Income**

Enter your Arizona income from page 2, line B19, of your return.

#### **Line 15 - Additions to Income**

Enter the amount from page 2, line C23, of your return.

#### **Line 16 - Medical Savings Account (MSA) Distributions**

**NOTE:** *New MSA provisions apply for 1997. Special rules apply to accounts established under the former provisions. If you established an account under the former provisions, you may have either maintained the account or terminated the account. If you maintained the account, the account is subject to the new MSA provisions. If you terminated the account, you must have withdrawn the funds in your account by the last business day in 1997. In this case, the withdrawal penalty does not apply, but you must add the amount withdrawn to your Arizona gross income.*

For information on Arizona's new MSA provisions, see the department's MSA brochure, Pub 542. To get a copy of this brochure, call one of the help

numbers listed on page 1 of these instructions.

You must add amounts received from an MSA here if any of the following apply.

### **1 -You Terminated an MSA established Under Former Arizona Law**

You must make an entry here if both of the following apply.

1. You had an account under former Arizona law.
2. You made an election to terminate that account and withdrew the funds by the last business day of 1997.

Enter the amount withdrawn.

### **2 -You Withdrew Funds From Your MSA For Other Than Qualified Expenses**

If you had an MSA during the part of the year you were an Arizona resident, you must make an entry here if all of the following apply.

1. You withdrew money from your MSA during 1997, while either a resident or a nonresident.
2. You did not use the amount withdrawn to pay qualified medical expenses.
3. You did not have to include the withdrawal as income on your federal income tax return.

Enter the amount withdrawn.

If you had an MSA during the part of the year you were an Arizona nonresident, you must make an entry here if all of the following apply.

1. You had Arizona source income while an Arizona nonresident.
2. Your MSA qualified as an MSA under Arizona law.
3. If you were an employee, your high deductible health coverage was provided by your Arizona employer. If you were self employed, your high deductible health coverage was provided by your Arizona business.

4. You withdrew money from your MSA during 1997, while either a resident or a nonresident.
5. You did not use the amount withdrawn to pay qualified medical expenses.
6. You did not have to include the withdrawal as income on your federal income tax return.

Enter the amount withdrawn.

### **3 -Deceased Account Holder Where The Named Beneficiary is Not the Decedent's Surviving Spouse**

You must make an entry here if all of the following apply.

1. The account holder died during the part of the year you were an Arizona resident.
2. The decedent's MSA qualified as an MSA under Arizona law.
3. You are the named beneficiary of the decedent's MSA.
4. You are not the decedent's surviving spouse.
5. You did not have to include the value of the MSA as income on your federal income tax return.

In this case, the MSA ceases to be an MSA. Enter the fair market value of the MSA as of the date of death, less the amount of MSA funds used within one year of the date of death, to pay the decedent's qualified medical expenses. You can reduce the fair market value by only those expenses paid from the MSA. If you pay additional medical expenses for the decedent from the MSA after you file, you may file an amended return to further reduce the fair market value of the MSA.

### **4 -Decedent's Final Return And No Named MSA Beneficiary**

Make an entry here if all of the following apply.

1. The account holder died during the part of the year in which he or she was an Arizona resident.
2. There is no named MSA beneficiary.
3. This is the decedent's final return.

4. The value of the MSA did not have to be included on the decedent's final federal income tax return.

In this case, the MSA ceases to be an MSA. Enter the fair market value of the MSA as of the date of death. This rule applies in all cases in which there is no named beneficiary, even if the surviving spouse ultimately obtains the right to the MSA assets.

**NOTE:** *The following are not withdrawals. Do not enter any of the following:*

- Amounts from the MSA used to pay qualified medical expenses
- A qualified return of excess contributions
- A qualified rollover
- The fair market value of an MSA received by a surviving spouse who was the deceased account holder's named beneficiary

*For more information about the above items, see the department's MSA brochure, Pub 542.*

### **Line 18 - Deposits and Employer Contributions Into MSAs**

#### **Deposits Made Into Your MSA**

If you have an MSA, you may be able to subtract deposits made into that MSA. Make an entry here if all of the following apply.

1. You have an MSA that qualifies as an MSA under Arizona law, but not federal law.
2. Either you or your employer made deposits into that MSA during the tax year.
3. You had to include the deposits in income on your federal income tax return.

Enter the amount of the MSA deposits that you had to include in your federal adjusted gross income.

## Employer Contributions Made to Employee MSAs

If you are an employer, you may subtract the amount contributed to your employees' MSAs that are established under Arizona law. You can subtract these contributions only to the extent not deductible for federal income tax purposes. Enter these contributions here.

### Line 19 - Elective Subtraction of Federal Retirement Contributions

*This line applies only to individuals who were civilian employees of the United States Government during 1997. The Arizona Board of Tax Appeals has ruled that no refunds of Arizona income taxes paid on contributions to federal retirement plans are due for any years after 1990. The taxpayers have appealed that determination to the Arizona Tax Court, so the issue is not yet final.*

Line 19 is provided to alert you to a remedy available to you under Arizona law. On your 1997 return, you have two options.

#### Option #1

You may subtract the amount of contributions to your retirement plan that was withheld from your wages paid by the federal government. Enter on line 19 the 1997 amount of such contributions **included in your Arizona income subject to tax**. If you choose this option and the courts ultimately decide that it is legal for the State of Arizona to tax your retirement contributions, you will owe additional tax and accrued interest. (Also, see *Protective Claim for Refund* below.)

#### Option #2

You may choose to ignore line 19. You may instead file the protective claim form. This form is in the front of this instruction booklet. Under this option you will pay tax on your contributions to the federal retirement plan. You will also protect your rights to a credit or refund of this tax if the courts ultimately decide that is appropriate. The state will pay interest in this event.

### Protective Claim for Refund

You can find this form in the front of this instruction booklet. You can find this form at the bottom of the page titled *Notice to Current and Former Federal Civilian Employees*. If you were a civilian employee of the United States government at any time during the years 1993 through 1997, you should complete this claim form. Submitting this claim form will protect your rights to tax relief for the years you were so employed. If you choose **Option #2** for 1997, you should also include 1997 in your claim. Claims for 1993 must be postmarked by April 15, 1998, to be valid. If you previously filed a protective claim for 1993 through 1996, only include 1997 on the claim form filed for 1997.

Please do not include the protective claim with your 1997 income tax return. Mail the claim form separately to the address indicated to ensure proper handling.

#### Line 20 - Subtractions From Income

Enter the amount from page 2, line D35, of your return.

### Figuring Your Arizona Tax

#### Line 23 - Itemized or Standard Deductions

You must decide whether to take the standard deduction or to itemize your deductions. Your Arizona income tax will be less if you take the larger of your standard deduction or your itemized deduction.

## Your Standard Deduction

**Tax Tip:** *The standard deduction is not prorated.*

If you take the standard deduction, check box 23S.

If your filing status is:	Your standard deduction is:
Single	\$ 3,600
Married filing separate	\$ 3,600
Married filing joint	\$ 7,200
Head of household	\$ 7,200

## Your Itemized Deduction

You may itemize deductions on your Arizona return even if you do not itemize deductions on your federal return. The itemized deductions allowed for Arizona purposes are, with some exceptions, those itemized deductions that are allowable under the Internal Revenue Code.

A part-year resident who has no Arizona source income during the part of the year while an Arizona nonresident can deduct all of the following.

1. Those expenses incurred and paid during the part of the year while an Arizona resident.
2. Arizona source itemized deductions incurred and paid during the period of nonresidency.

Complete Arizona Form 140PY, Schedule A(PY) to determine your Arizona itemized deductions.

A part-year resident who also had Arizona source income during the part of the year while an Arizona nonresident can deduct all of the following.

1. Those expenses incurred and paid during the part of the year while an Arizona resident.
2. Arizona source itemized deductions incurred and paid during the period of nonresidency.
3. A portion of all other itemized deductions paid during the period of nonresidency.



Complete Arizona Form 140PY, Schedule A(PYN) to determine your Arizona itemized deductions. Form 140PY, Schedule A(PYN) is not included in your booklet. You may get this form by calling one of the help numbers listed on page 1 of these instructions.

To determine your Arizona itemized deductions, complete a federal Form 1040, Schedule A. If you telefile your federal Form 1040, you do not need to complete a federal Form 1040, Schedule A. Instead, complete your telefile worksheet for 1040 filers. Then complete the Arizona Form 140PY, Schedule A(PY) or A(PYN). If you itemize deductions, check box 23I.

**NOTE:** *If you itemize, you must attach a copy of your federal Schedule A to your Arizona return. If you telefile your federal Form 1040, you must attach your telefile worksheet for 1040 filers.*

For more information on itemized deductions allowed to a part-year Arizona resident, see Arizona Individual Income Tax Ruling ITR 94-10. To get a copy of this ruling, call one of the help numbers listed on page 1 of these instructions.

## Line 24 - Personal Exemptions

Your personal exemption depends on your filing status. See Personal Exemption Chart. Then complete Personal Exemption Worksheet on this page.

**NOTE: For Active Duty Military Personnel Only:** *If you were an active duty military member who either began or gave up Arizona residency during 1997, do not prorate the personal exemption. You are allowed a 100 percent deduction for the personal exemption (to include spouse).*

Married taxpayers claiming no dependents receive only one personal exemption of \$4,200 (prior to prorating). Married taxpayers claiming at least one dependent receive only one personal exemption of \$6,300 (prior to

prorating). When married taxpayers file separate Arizona returns, the personal exemption may be taken by either taxpayer or divided between them. If one spouse qualifies to file as head of household because the other spouse was a nonresident alien for federal income tax purposes at any time during 1997, the personal exemption may be taken by either spouse or divided between them.

If you are married filing a separate return with one spouse claiming at least one dependent, or married to a nonresident alien and filing as head of household, you may, prior to prorating, claim a personal exemption of only \$3,150 (one-half of the total \$6,300) unless you and your spouse complete Form 202, *Personal Exemption Allocation Election* electing a different allocation. If you are married filing a separate return with neither spouse

### Personal Exemption Chart - Line 24

If you checked filing status	Personal Exemption before proration
Single (Box 7)	\$ 2,100
Married filing joint return (Box 4) and claiming no dependents (Box 10)	\$ 4,200
Married filing joint return (Box 4) and claiming at least one dependent (Box 10)	\$ 6,300
Head of household and you are <b>not</b> married to a person who was a nonresident alien for federal income tax purposes at any time during 1997. (Box 5)	\$ 4,200
Head of household and you <b>are</b> married to a person who was a nonresident alien for federal income tax purposes at any time during 1997. (Box 5)	\$ 3,150
	Or
	Complete Form 202 <i>Personal Exemption Allocation Election</i> .
Married filing separately (Box 6) with neither spouse claiming any dependents (Box 10)	\$ 2,100
	Or
	Complete Form 202 <i>Personal Exemption Allocation Election</i> .
Married filing separately (Box 6) with one spouse claiming at least one dependent (Box 10)	\$ 3,150
	Or
	Complete Form 202 <i>Personal Exemption Allocation Election</i> .

### Personal Exemption Worksheet

1. Amount from above chart if you are an active duty military member who either began or gave up Arizona residency during 1997, skip lines 2 and 3 and enter this amount on Form 140PY, page 1, line 24. All other taxpayers complete lines 2 and 3.	\$
2. Enter your Arizona percentage from Form 140PY, page 2, line B20.	%
3. Multiply line 1 by the percent on line 2. Enter the result here and on Form 140PY, page 1, line 24.	\$

claiming a dependent, you may, prior to prorating, claim a personal exemption of only \$2,100 (one-half of the total \$4,200) unless you and your spouse complete Form 202, *Personal Exemption Allocation Election* electing a different allocation. Complete Form 202 if one of the following applies.

1. You are married filing a separate return, with neither spouse claiming a dependent, and prior to prorating, you or your spouse claim a personal exemption of more than \$2,100.
2. You are married filing a separate return, with one spouse claiming at least one dependent, and prior to prorating, you or your spouse claim a personal exemption of more than \$3,150.
3. You are filing as head of household and you are married to a person who was a nonresident alien for federal income tax purposes at any time during 1997 and, prior to prorating, you or your spouse claim a personal exemption of more than \$3,150.

The spouse who is claiming more than one-half of the total personal exemption must attach the original Form 202 to his or her Arizona income tax return. The spouse who is claiming less than one-half of the total personal exemption must attach a copy of the completed Form 202 to his or her Arizona income tax return.

Call the number listed on page 1 to order Form 202.

#### Line 26 - Taxable Income

Subtract line 25 from line 22 and enter the result. Use this amount to calculate your tax using Tax Rate Table X or Y.

#### Line 27 - Tax Amount

Enter the tax from Tax Rate Table X or Y.

#### Line 28 - Tax From Recapture of Credits From Arizona Form 301

Enter the amount of tax due from recapture of the environmental technology credit and/or the recycling

equipment credit from Form 301, Part II, line 17.

#### Line 29 - Subtotal of Tax

Add lines 27 and 28.

#### Line 30 - Family Income Tax Credit

You may take the family income tax credit if you meet the following.

1. You are single or married filing separately and your Arizona gross income (line 14 of your Form 140PY) is \$10,000 or less.
2. You are married filing jointly or unmarried head of household, and your Arizona gross income (line 14 of your Form 140PY) is \$20,000 or less.

#### Line 31 - Credits From Arizona Form 301

Complete line 31 if you can take any of the following credits.

1. **Defense Contracting Credit.** You may qualify for this credit if you are an Arizona Department of Commerce certified defense contractor who has qualified increases in employment. This tax credit also includes a provision for a property tax credit. Use Form 302 to figure this credit.

2. **Enterprise Zone Credit.** You may qualify for this credit if your business in an Arizona enterprise zone had net increases in qualified employment positions. Use Form 304 to figure this credit.

3. **Environmental Technology Credit.** You may qualify for this credit if your business incurred expenses in constructing a qualified environmental technology manufacturing facility. Use Form 305 to figure this credit.

4. **Military Reuse Zone Credit.** You may qualify for this credit if you have qualifying net increases in full-time employment within a military reuse zone. Use Form 306 to figure this credit.

5. **Recycling Equipment Credit.** You may qualify for this credit if your business has installed recycling material equipment. Use Form 307 to figure this credit.

6. **Credit for Taxes Paid to Another State or Country.** You may qualify for this credit if you paid tax to Arizona and another state or country on the same income. Use Form 309 to figure this credit.

#### Family Income Tax Credit Worksheet — Line 30

To figure your credit, complete the family income tax credit worksheet

1. a. If you checked filing status 4 or 5, is the amount on page 1, Form 140PY, line 14, \$20,000 or less?  
If yes, continue. If no, **STOP**. You do not qualify.
  - b. If you checked filing status 6 or 7, is the amount on page 1, Form 140PY, line 14, \$10,000 or less?  
If yes, continue. If no, **STOP**. You do not qualify.
2. Enter the number of dependents you entered in box 10, page 1, Form 140PY. \_\_\_\_\_
  3. Number of personal exemptions. If you checked filing status 4, enter the number 2 here. If you checked filing status 5, 6, or 7, enter the number 1 here. \_\_\_\_\_
  4. Add lines 2 and 3. Enter the result. \_\_\_\_\_
  5. Multiply the amount on line 4 by \$30. Enter the result \_\_\_\_\_
  6. If you checked filing status 4 or 5, enter \$120 here.  
If you checked filing status 6 or 7, enter \$60 here. \_\_\_\_\_
  7. Family income tax credit. Enter the lesser of line 5 or line 6. \_\_\_\_\_

Enter the amount from line 7 of the worksheet onto page 1, Form 140PY, line 30.

**7. Solar Energy Credit.** You may qualify for this credit if you installed a solar energy device in your residence located in Arizona. Use Form 310 to figure this credit.

**8. Agricultural Water Conservation System Credit.** You may qualify for this credit if you incurred expenses to purchase and install an agricultural water conservation system in Arizona. Use Form 312 to figure this credit.

**9. Alternative Fuel Credit.** You may qualify for this credit if you purchased or leased a new alternative fuel vehicle or purchased alternative fuel refueling equipment. You may also qualify for this credit if you converted your conventional vehicle to operate as an alternative fuel vehicle. Use Form 313 to figure this credit.

**10. Underground Storage Tanks Credit.** You may qualify for this credit if you incurred expenses correcting a release of a regulated substance from an underground storage tank. To qualify for this credit, you must not have been liable or responsible for the corrective action as an owner or operator of the underground storage tank. Use Form 314 to figure this credit.

**11. Pollution Control Credit.** You may qualify for this credit if you purchased depreciable property used in a trade or business to reduce or prevent pollution. Use Form 315 to figure this credit.

**12. Construction Materials Credit.** You may qualify for this credit if you purchased construction materials for a building used in manufacturing, mining, or research and development. Your construction costs must have been more than five million dollars. Use Form 316 to figure this credit.

Compute your credit on the appropriate form. Then complete Form 301 and enter the amount from Form 301, line 31. The credits on line 31 cannot reduce your tax below zero. These credits are not refundable credits.

Attach Arizona Form 301 along with any supporting documents to your return.

### Line 32 - Credit Type

If you entered an amount on line 31 write the form number(s) of the credit(s) from Arizona Form 301, Part II.

If you are \_\_\_\_\_ Write form number: claiming:

1. Defense Contracting Credit	302
2. Enterprise Zone Credit	304
3. Environmental Technology Credit	305
4. Military Reuse Zone Credit	306
5. Recycling Equipment Credit	307
6. Credit for Taxes Paid to Another State or Country	309
7. Solar Energy Credit	310
8. Agricultural Water Conservation System Credit	312
9. Alternative Fuel Credit	313
10. Underground Storage Tanks Credit	314
11. Pollution Control Credit	315
12. Construction Materials Credit	316

### Line 33 - Total Credit

Add lines 30 and 31. Enter the result.

### Line 34 - Balance of Tax

Subtract line 33 from line 29, but do not enter an amount less than zero. If line 33 is more than line 29, enter zero.

## Totaling Payments

### Line 35 - Arizona Income Tax Withheld

Enter the Arizona income tax withheld as shown on the Form(s) W-2 from your employer. Also enter the Arizona

income tax withheld shown on your Form(s) 1099-R (distributions from pensions, annuities, etc.). Attach the Form(s) W-2 and 1099-R to the front of your return. Do not include income taxes withheld by any other state.

### Line 36 - Arizona Estimated Tax Payments for 1997 and Amount Applied From 1996 Return

Use this line if you did one of the following:

1. Made estimated income tax payments to Arizona for 1997.
2. Applied any of your refund from your 1996 Arizona return to 1997 estimated taxes for Arizona.

Enter the total amount paid and/or applied to 1997 taxes.

### Line 37 - Amount Paid With 1997 Extension Request (Form 204)

Use this line to report the payment you sent with your extension request.

### Line 38 - Total Payments

Add lines 35 through 37. Enter the total.

Also, do the following if you computed your 1997 tax under Arizona's claim of right provisions.

1. Write "ARS § 43-1029" and the amount of the prior year tax reduction in the space to the left of your total payment amount.
2. Include the credit for the prior year tax reduction in the total entered on line 38.
3. Attach a schedule explaining the amounts repaid and the computation of the prior year tax reduction.

For more information on Arizona's claim of right provisions, see Arizona Department of Revenue Individual Income Tax Procedure ITP 95-1.

## Figuring Your Overpayment or Tax Due

### Line 39 - Tax Due

If line 34 is more than line 38, you have tax due. Subtract line 38 from line 34. Skip lines 40, 41, and 42.

### Line 40 - Overpayment

If line 38 is more than line 34, subtract line 34 from line 38. Complete lines 41 and 42.

### Line 41 - Amount of Line 40 to Apply to 1998 Tax

If you want all or part of your refund applied to next year's Arizona estimated taxes, enter that amount.

### Line 42 - Balance of Overpayment

Subtract line 41 from line 40 to determine your overpayment balance before voluntary gifts and any estimated payment penalty.

## Making Voluntary Gifts

You can make voluntary gifts to each of the funds shown below. A gift will reduce your refund or increase the amount due with your return.

*You cannot change original gifts later on amended returns.*

### Line 43 - Arizona Wildlife Fund

Gifts go to the Arizona Game, Nongame, Fish and Endangered Species Fund. This fund helps protect and conserve over 1,000 nongame species.

### Line 44 - Child Abuse Prevention Fund

Gifts go to the Arizona Child Abuse Prevention Fund. This fund provides financial aid to community agencies for child abuse prevention programs.

### Line 45 - Neighbors Helping Neighbors Fund

Gifts go to the Neighbors Helping Neighbors Fund. This fund provides

eligible recipients with emergency aid in paying energy utility bills and conserving energy.

### Line 46 - Special Olympics Fund

Gifts go to the Special Olympics Fund. This fund helps provide programs of the Arizona Special Olympics.

### Line 47 - Political Gifts

Gifts go to one of the following political parties:

Democratic  
Libertarian  
Reform  
Republican

### Line 48 - Political Party

Check the box for the political party to which you wish to give. Select only one party. If you do not select a political party, the department will return the amount on line 47.

### Line 49 - Estimated Payment Penalty and Interest

You must have made Arizona estimated income tax payments during 1997 if you meet either of the following.

1. You reasonably expected your Arizona gross income to exceed \$75,000 in 1997.
2. Your Arizona gross income in 1996 was greater than \$75,000.

In projecting current Arizona gross income, you must use ordinary business care and prudence.

If you were unable to project your 1997 Arizona gross income, you may request a waiver from the requirement to make estimated payments. The department may grant a waiver for one or more payment periods. You must request a waiver in writing. If requesting a waiver, attach your request to your return when you file. Your request must explain why you could not reasonably project your Arizona gross income for one or more payment periods during 1997.

The department may grant a waiver only if all of the following apply.

1. Your Arizona gross income in the preceding taxable year was less than \$75,000.
2. Using ordinary business care and prudence, you were unable to reasonably project your 1997 Arizona gross income.

You must attach Form 221 and your waiver request to your return.

If you report as a farmer or fisherman for federal purposes, you were not required to make estimated payments during 1997 if the following apply.

1. You are a calendar year filer. You file your Arizona return by March 2, 1998. You pay in full the amount stated on your return as payable.
2. You are a fiscal year filer. You file your Arizona return by the first day of the third month after the end of your fiscal year. You pay in full the amount stated on your return as payable.

### If the above applies, check box 2 on line 50 and do not complete Form 221.

An individual who fails to make the required estimated payments is subject to penalty and interest on any estimated tax payment that is late or underpaid.

Complete and attach Form 221, *Underpayment of Estimated Tax by Individuals*, to determine if any penalty and interest are due. Enter total penalty and interest from Form 221.

### Line 50 -

**Box 1** - Check box 1 if any of the following applies to you.

1. You checked the box on line 1 of Form 221.
2. You completed the annualized income worksheet on Form 221.
3. You elected to be treated as a nonresident alien on your federal income tax return. You made three estimated payment installments. Your first installment equaled 50

percent of the total of all of your required installments.

**Box 2** - If you are an individual who for federal purposes reports as a farmer or fisherman, check box 2.

**Box 3** - If you completed and attached Form 221, check box 3.

### Line 51 - MSA Withdrawal Penalty

You must pay a withdrawal penalty if you made an MSA withdrawal during 1997 and all of the following apply.

1. You used the amount withdrawn for purposes other than to pay for qualified medical expenses.
2. You made the withdrawal on a day other than the last business day of the year.
3. The withdrawal is not subject to the federal withdrawal penalty.

The penalty is equal to 10 percent of the withdrawal. The withdrawal penalty is not subject to abatement. You must remit this penalty with your income tax return filed for the year in which you made the withdrawal.

Multiply the amount of your withdrawal subject to penalty by 10 percent. Enter the result.

The following withdrawals are not subject to the penalty.

1. Any withdrawal subject to the federal withdrawal penalty.
2. Withdrawals made from your MSA on the last business day of the tax year.
3. Any withdrawal made by an account holder who is at least age 59 1/2 when he or she makes the withdrawal.

**NOTE:** *The following are not withdrawals. Do not enter a penalty for any of the following.*

- *Amounts from the MSA used to pay qualified medical expenses*
- *A qualified return of excess contributions*
- *A qualified rollover*
- *The fair market value of an MSA received by a surviving spouse who was the deceased account holder's named beneficiary*

*For more information about the above items, see the department's MSA brochure, Pub 542.*

### Figuring Your Refund or Tax Due

#### Line 53 - Refund

Subtract line 52 from line 42. Enter your refund on line 53 and skip line 54.

If you owe money to any state agency and certain federal agencies, your refund may go to pay some of the debt. If so, the department will let you know by letter.

**Tax Tip:** *If you change your address before you get your refund, let the department know. Write to: Refund Desk, Arizona Department of Revenue, 1600 W Monroe, Phoenix AZ 85007. Include your social security number in your letter.*

#### Line 54 - Amount Owed

Add lines 39 and 52. Enter the amount you owe on line 54.

Make your check payable to Arizona Department of Revenue. Write your social security number on the front of your check or money order. Attach your check or money order to the front of your return where shown.

The department cannot accept checks or money orders in foreign currency. You must make payment in U.S. dollars.

### Sign Your Return

You must sign your return. If married filing a joint return, both you and your spouse must sign even if only one had income. The department cannot send a refund check without proper signatures on the return.

### Instructions Before Mailing

- Be sure you enter your home telephone number in the space provided on the front of your return. If your daytime telephone number is not the same as your home number, also enter a daytime number.
  - Check to make sure that your math is correct. A math error can cause delays in processing your return.
  - Make sure your **name** is on the return. If you received your return in the mail, use the preprinted label. **If the label is not correct, do not use it.**
  - If claiming **dependent** exemptions, write the number of dependents claimed on the **front** of the return. On page 2 of the return, also write each dependent's name, relationship, social security number, and the number of months that he or she lived in your home.
  - Check the **boxes** to make sure you filled in all required boxes.
  - Attach **all** required documents.
1. Attach *Form(s) W-2* to the **front** of your return. Also attach *Form(s) 1099-R* to the front of the return if you had Arizona tax withheld from your pension or annuity.
  2. Write your social security number on the front of your check and attach your *check* to the **front** of the return.

The Department of Revenue may charge you \$25 for a check returned unpaid by your financial institution.

3. Attach Form 301 and your own schedules to the back of the return.
  4. If you are claiming a credit for taxes paid to another state or country, attach copies of the other state's or country's filed return.
  5. If you requested a filing extension, attach a copy of the federal or state extension request to the front of your return.
  6. If you have tax exempt interest income, be sure to attach a schedule listing the payors and the amount received from each payor.
  7. If you itemize, be sure to attach Arizona Schedule A(PY), or (PYN), and a copy of the federal Schedule A. If you telefile your federal return, attach your telefile worksheet.
- Sign your return and have your spouse sign if filing jointly.

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## Filing Your Return

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Before you mail your return, make a copy of your return. Also make a copy

of any schedules that you are sending in with your return. Keep the copies for your records. Be sure that you file the original and not a copy.

To mail your return, use the envelope that came in your booklet. If it is missing, send the return to: Arizona Department of Revenue, PO Box 29002, Phoenix AZ 85038-9002.

### **Make sure you put enough postage on the envelope.**

The U.S. Postal Service must postmark your return or extension request by midnight April 15. A postage meter postmark will not qualify as a timely postmark. *Only a postmark from the U.S. Postal Service will qualify.*

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## How Long To Keep Your Return

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Keep your records as long as they are important for any Arizona tax law. Keep all records that support your income and deductions for a tax year until the period of limitations expires for the return for that tax year. A period of limitations is the limited time after which no legal action can be brought.

Usually, this is four years from the date the return was due or filed.

In some cases, the limitation period is longer than four years. The period is six years from when you file a return if you under report the income shown on that return by more than 25 percent. The department can bring an action at any time if a return is false or fraudulent, or you do not file a return.

Keep records that establish the basis of property for a period longer than four years. Also keep net operating loss records back to the date you incurred the loss. To find out more about what records you should keep, get federal Publication 552.

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## When To Expect Your Refund

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Expect your refund in the mail within 8 weeks of the date you filed. If you have not received your refund by that time, contact one of the help numbers listed on page 1 of these instructions.

# Tax Rate Tables X and Y

# 1997

## Table X

Use if your filing status is Single or Married filing separate returns.

Over	But not over	
\$0	\$10,000	2.9% of taxable income
\$10,000	\$25,000	\$290, plus 3.3% of the excess over \$10,000
\$25,000	\$50,000	\$785, plus 3.9% of the excess over \$25,000
\$50,000	\$150,000	\$1,760, plus 4.8% of the excess over \$50,000
\$150,000	and over	\$6,560, plus 5.17% of the excess over \$150,000

### Example:

Single with taxable income on line 26 of \$45,000.

Compute tax using Tax Table X as follows:

	\$45,000
	<u>-25,000</u>
	\$20,000
	<u>X.039</u>
	\$ 780
	<u>+785</u>
Arizona Tax	\$ 1,565

## Table Y

Use if your filing status is Married filing joint return or Head of household.

Over	But not over	
\$ 0	\$20,000	2.9% of taxable income
\$20,000	\$50,000	\$580, plus 3.3% of excess over \$20,000
\$50,000	\$100,000	\$1,570 plus 3.9% of the excess over \$50,000
\$100,000	\$300,000	\$3,520, plus 4.8% of the excess over \$100,000
\$300,000	and over	\$13,120, plus 5.17% of the excess over \$300,000

### Example:

A married couple's taxable income on line 26 is \$30,000

They would compute their tax using Tax Table Y as follows:

	\$30,000
	<u>-20,000</u>
	\$10,000
	<u>X.033</u>
	\$ 330
	<u>+580</u>
Arizona Tax	\$ 910

# Tax Rate Tables X and Y

1997

**Table X**

Use if your filing status is Single or Married filing separate returns.

Over	But not over	
\$0	\$10,000	2.9% of taxable income
\$10,000	\$25,000	\$290, plus 3.3% of the excess over \$10,000
\$25,000	\$50,000	\$785, plus 3.9% of the excess over \$25,000
\$50,000	\$150,000	\$1,760, plus 4.8% of the excess over \$50,000
\$150,000	and over	\$6,560, plus 5.17% of the excess over \$150,000

**Example:**

Single with taxable income on line 26 of \$45,000.  
Compute tax using Tax Table X as follows:

	\$45,000
	<u>-25,000</u>
	\$20,000
	<u>X.039</u>
	\$ 780
	<u>+785</u>
Arizona Tax	\$ 1,565

**Table Y**

Use if your filing status is Married filing joint return or Head of household.

Over	But not over	
\$ 0	\$20,000	2.9% of taxable income
\$20,000	\$50,000	\$580, plus 3.3% of excess over \$20,000
\$50,000	\$100,000	\$1,570 plus 3.9% of the excess over \$50,000
\$100,000	\$300,000	\$3,520, plus 4.8% of the excess over \$100,000
\$300,000	and over	\$13,120, plus 5.17% of the excess over \$300,000

**Example:**

A married couple's taxable income on line 26 is \$30,000  
They would compute their tax using Tax Table Y as follows:

	\$30,000
	<u>-20,000</u>
	\$10,000
	<u>X.033</u>
	\$ 330
	<u>+580</u>
Arizona Tax	\$ 910



**Worksheet** (Keep for your records)

1. Enter the contributions made during your Arizona residency and deducted on your federal return before December 31, 1975. \_\_\_\_\_
2. Enter any adjustments deducted on your Arizona returns for 1979 through 1996. If line 2 is more than line 1, stop here. You do not have an adjustment. \_\_\_\_\_
3. If line 2 is less than line 1, subtract line 2 from line 1 and enter the result. \_\_\_\_\_
4. Enter the distribution taxable \_\_\_\_\_
5. Compare the amounts on lines 3 and 4 and enter the smaller amount as your allowable subtraction on line D34.

**Pension Adjustment Worksheet — Line C22****Worksheet** (Keep for your records.)

1. Your contribution to annuity. \_\_\_\_\_
2. Pension amount received in prior years. \_\_\_\_\_
3. Remainder of cost (line 1 minus line 2 but not less than zero). \_\_\_\_\_
4. Pension amount received this year. \_\_\_\_\_
5. Amount from line 3. \_\_\_\_\_
6. Subtract line 5 from line 4 (but not less than zero). \_\_\_\_\_
7. Enter the pension amount taxable on your federal return. \_\_\_\_\_
8. Subtract line 7 from line 6. \_\_\_\_\_

If line 8 is more than zero, enter the amount on line 8 as an addition to income. Enter the addition on line C22.

If line 7 is more than line 6, enter the difference as a subtraction from income. Enter the subtraction on line D34.

# Tax Rate Tables X and Y 1997

**Table X**

Use if your filing status is Single or Married filing separate returns.

Over	But not over	
\$0	\$10,000	2.9% of taxable income
\$10,000	\$25,000	\$290, plus 3.3% of the excess over \$10,000
\$25,000	\$50,000	\$785, plus 3.9% of the excess over \$25,000
\$50,000	\$150,000	\$1,760, plus 4.8% of the excess over \$50,000
\$150,000	and over	\$6,560, plus 5.17% of the excess over \$150,000

**Example:**

Single with taxable income on line 26 of \$45,000.  
 Compute tax using Tax Table X as follows:

	\$45,000
	<u>-25,000</u>
	\$20,000
	<u>X.039</u>
	\$ 780
	<u>+785</u>
Arizona Tax	\$ 1,565

**Table Y**

Use if your filing status is Married filing joint return or Head of household.

Over	But not over	
\$ 0	\$20,000	2.9% of taxable income
\$20,000	\$50,000	\$580, plus 3.3% of excess over \$20,000
\$50,000	\$100,000	\$1,570 plus 3.9% of the excess over \$50,000
\$100,000	\$300,000	\$3,520, plus 4.8% of the excess over \$100,000
\$300,000	and over	\$13,120, plus 5.17% of the excess over \$300,000

**Example:**

A married couple's taxable income on line 26 is \$30,000  
 They would compute their tax using Tax Table Y as follows:

	\$30,000
	<u>-20,000</u>
	\$10,000
	<u>X.033</u>
	\$ 330
	<u>+580</u>
Arizona Tax	\$ 910

**Personal Exemption Chart - Line 24**

If you checked filing status	Personal Exemption before proration
Single (Box 7)	\$ 2,100
Married filing joint return (Box 4) and claiming no dependents (Box 10)	\$ 4,200
Married filing joint return (Box 4) and claiming at least one dependent (Box 10)	\$ 6,300
Head of household and you are <b>not</b> married to a person who was a nonresident alien for federal income tax purposes at any time during 1997. (Box 5)	\$ 4,200
Head of household and you <b>are</b> married to a person who was a nonresident alien for federal income tax purposes at any time during 1997. (Box 5)	\$ 3,150
	Or Complete Form 202 <i>Personal Exemption Allocation Election</i> .
Married filing separately (Box 6) with neither spouse claiming any dependents (Box 10)	\$ 2,100
	Or Complete Form 202 <i>Personal Exemption Allocation Election</i> .
Married filing separately (Box 6) with one spouse claiming at least one dependent (Box 10)	\$ 3,150
	Or Complete Form 202 <i>Personal</i>

**Personal Exemption Worksheet**

- |  |    |
|--|----|
| 1. Amount from above chart if you are an active duty military member who either began or gave up Arizona residency during 1997, skip lines 2 and 3 and enter this amount on Form 140PY, page 1, line 24. All other taxpayers complete lines 2 and 3. | \$ |
| 2. Enter your Arizona percentage from Form 140PY, page 2, line B20.  | %  |
| 3. Multiply line 1 by the percent on line 2. Enter the result here and on Form 140PY, page 1, line 24.   | \$ |